

Credit Education Guide for Homebuyers

A Comprehensive Guide by The Housing Assistant



A Detailed Guide Provided by The Housing Assistant for Realtor Use

Introduction

Understanding credit is one of the most important steps toward homeownership. As a Realtor, you can play a key role in empowering your clients with accurate and easy-to-follow information about how credit works. This guide explains the basics of credit, how it affects mortgage approvals, and practical steps clients can take to improve their credit profile.

1. Why Credit Is Crucial for Buying a Home

Lenders use credit scores to assess risk. The higher the score, the more likely a borrower is to qualify for better loan terms and lower interest rates. Poor credit may result in higher costs or loan denial.

Impacts of Credit on the Mortgage Process:

- Loan eligibility and approval
- Interest rate offered by the lender
- Type of loan product available (FHA, VA, Conventional, USDA)
- Required down payment
- Mortgage insurance costs

2. What Makes Up a Credit Score?

The FICO credit score ranges from 300 to 850. It is calculated using five major components:

Credit Factor	Weight in Score
Payment History	35%
Amounts Owed / Utilization	30%
Length of Credit History	15%
Credit Mix (Types of Credit)	10%
New Credit Inquiries	10%

3. Credit Score Ranges and Meaning

These general ranges help explain how lenders view your credit profile:

Credit Score	Rating
800–850	Excellent
740–799	Very Good
670–739	Good
580–669	Fair
300–579	Poor

4. How Clients Can Improve Their Credit

- Always pay bills on time, this has the largest impact on your score.
- Keep credit card balances under 30% of the credit limit.
- Avoid applying for multiple new credit accounts at once.
- Keep old accounts open to maintain length of credit history.
- Review credit reports regularly and dispute any errors.

5. Understanding Credit Reports

A credit report is a record of a consumer’s credit history and behavior. The three major bureaus—Experian, TransUnion, and Equifax—each maintain a separate report. Clients are entitled to one free report per bureau per year through AnnualCreditReport.com.

Common Credit Report Sections:

- Personal Identifying Information
- Account Summary (Credit cards, loans, mortgages)
- Payment History
- Public Records (e.g., bankruptcies)
- Inquiries (Hard and Soft)

6. Minimum Credit Score by Loan Program

Each mortgage program has different credit score expectations:

Loan Type	Minimum Score	Notes
FHA	580	3.5% down payment if 580+; manual underwriting possible
VA	620 (recommended)	No down payment, for eligible veterans
Conventional	620	May require higher scores for better rates
USDA	640	For rural housing; income limits apply

Final Thoughts for Realtors

Providing your clients with credit education early in the process can save time, reduce stress, and help them become better prepared buyers. This guide equips Realtors with a tool to help homebuyers take meaningful steps toward financial readiness.